



Case Title: Shelf Ready Packaging on Private Label Brands

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**Shelf Ready Packaging on Private Label Brands**

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**Abstract**

The Portuguese food retail is in constant transformation: The only surviving mode is through adaptation, innovation, or both at the same time.

Unfortunately for some and fortunately for others, the Portuguese market is increasingly competitive, volatile and filled with demanding consumers reactive to small price increases and quality reductions. If a ten-year retrospective was pursued, retailers would appear much more sceptical to the ongoing technological advances than what they are today, being now able to respond effectively to any obstacles they encounter. On the other hand, while there are internal processes common to all of them, proper conduct will make all the difference on the final annual profits.

The following case-study will characterize a fundamental operational process capable of saving a great percentage of labour cost per year while improving in-store availability and organizational layout of products.

The procedure consists in the implementation of shelf ready packaging displays on almost every type of article in a store, whose company of choice is SONAE and the targeted products are private labelled ones.

This movement is gaining adherence not only by the national players but also by international retailers whose intentions are driven by the innumerable operational advantages, commercial revenues and efficiency of production.

The case-study will start with a short and concise introduction of both International and Portuguese retailing industry as well as the trends that are triggering the success of current private label brands. As to finalize, there will be expressed senses of evolutionary perspectives, challenges and limitations. The case will only consider SONAE and its seven distinct food categories, [such as the Salty unit (01), the Sweet unit (02), Hard and Soft drinks (03), Hygiene & Beauty (05), Home cleaning (06), Frozen products (07) and Milk derivatives (08)].

**Exploring the origins of the Portuguese Massive Food Retail**

From the very first commercial transaction, retailing has always been a crucial part of the economical evolution of a country, as “the history of retail and social developments are inextricably linked”. [1] From its very

beginnings, retailing was made up of small familiar markets with limited choices meant to satisfy primary needs. As the time went by, these local corner stores grew up to be large and massive shopping's, adapted to serve each customer's need at any time. "In some of the bigger cities, people could find more but still limited by what they could carry back home". [1] In the 1980s, Portugal had a retail system that was still very precocious, absent from the existence of malls or multi-bank payments. Back then, the barriers to entry in the food industry were slow, given the lack of potential entrants, meaning that there was path to grow.

Nowadays, the neighbourhood grocery stores have already outnumbered the few existing supermarkets with almost two thousand active hypermarkets: The coverage of supermarkets per inhabitant is close to the numbers of the most developed countries. On the other hand, the low "intensity and frequency of industrial action compared with other countries in Western Europe" also provides good conditions for maintaining a retail business on the move. [2]

### **Company Overview: The world of SONAE at a challenging competing market**

SONAEMC was founded in 1985 and it is based in Matosinhos. It is currently the Portuguese national leader in the food retail market, presenting several business models that offer a wide range of quality products at the lowest prices: Continente (Hypermarkets); Modelo (Supermarkets), Bom-dia (Convenience Supermarkets), Meu super (Franchising stores), Bom Bocado, Bagga (Cafeterias and Restaurants); Note! (Livrory Stores); Well's (Health Care), and Zu (Pet stores). SONAE's everyday retail functions act as a connecting bridge, linking the supplier to the final consumer, providing the space and opportunity for market products and/or services to add global value, satisfying the requirements of the buying consumer and generating a massive amount of data by recording who is buying which products, when, where and how. SONAE is increasingly investing in qualitative product enhancements, price reductions, promotional campaign announcements, line innovations and effective marketing plans, among many other strategies to improve its business plan and increase margins.

According to an international retail overview from Delloite, "North American retailers Wal-Mart and Costco lead the global ranking based on 250 largest retail companies in the world. The French Carrefour, S.A. was

ranked with the third position in the ranking, where two Portuguese companies, Jerónimo Martins SGPS, S.A., were included in 62nd place, and Sonae SGPS, S.A., in 155th place ". [3]

### **The Power of Private Labelling**

“As retailers have become more powerful, they have increasingly focused on their own brands at the expense of manufactured ones. Rather than simply selling on price, retailers have transformed private labels into brands”.

[4] Private label's, also known as phantom labels are used to define products sold under a retailer organization's own name. These goods are not owned by a producer but by a wholesaler or retailer who gets their goods through a contract manufacture under its own label. The old-existing “distinct gap in the level of quality between private-label and brand-named products” has been narrowed. [5] Currently, SONAE mc has not only one single private label brand (PLB), but several exclusive named brands, such as My Label, Contemporal, Area Viva, Bem-me-Quer, Dom Rosado, Mico e Mica, and others. The principal PLB is Marca Continente (subdivided into “Seleção”, “Eco”, “Bio”, “Regular” and “Equilíbrio”) and the First Price (“É”) communicating the lowest price in the market.

### **Introducing the idea of a Shelf Ready Packaging**

The shelf ready packaging term defines a type of case that exposes and quickly restores every article in a store line. With just one repository movement, a SRP containing more than one sales unit can be replaced directly into the shelves, avoiding the multiple actions usually required in the operational process. As it is obvious, it will be much more efficient for the replacement technician to restore directly thirty units of sale at once rather than replacing them one by one. Considering the two thousand existing PBL articles placed every day during the year, in all hundreds of SONAE's stores, it is possible to infer that this process will have a brutal impact on the company's annual savings. [Exhibits 1 to 3].

**Why to “Ready Pack”?**

This process promises to abruptly increase the profitability, productivity and efficiency of the replacement process, as it not only minimizes operational and personal costs as it brings gains from the reduced out-of-stock situation (depletion of the article). This will improve shelf availability and sales (achieved in greater number and on a shorter period-of-time). Additionally, SRP products can be placed on the shelf without the need of unpacking or repackaging, providing a sense of organization in terms of warehouse work and consumers' aesthetics.

**Investment**

The existence of in-store SRP requires a huge investment from SONAE's Sales department as to justify the hard effort finding appealing proposals and the negotiation of all the supplier costs involved. Since a SRP is generally made of a costly cardboard material often customized to the specificity of each article and these cases require a brightness impression with more than one color (usually two or three), the whole implementation can represent a significant expenditure. The responsibility of the production will be on the supplier side, who will first negotiate with its own packaging supplier. These costs will be inevitably reflected on the incremented retail selling price (RSP) of the product. For this reason, the supplier will generally charge a higher price to the retailer driven by a margin stabilization.

Since personalization is costly, the most economical option would be to have one single uniformed SRP solution with the least number of display adopted to the higher number of products. In other words, the objective is to work with one design artwork, packaging size, shelf dimension, and number facings, for one single range of related products. Finally, to avoid all the potential price increments, the impact must be negotiated between the Sales dept. and the supplier. Consequently, the process will only be successful if taken as an investment as it will represent an initial margin loss with a future profit perspective.

## Risks

Several expectation losses can be viewed as perceived risk generally associated to a SRP implementation process, such as the "lack of traceability, transport delays and breakdowns, temperature abuse, cross-contamination in transport and storage" [6].

There is the dimensional risk (current costs that contribute to a good's future value for money); the financial risk (in case the product is to be repaired, replaced or purchased price refunded) and the performance risk (losses caused by a brand outperformance). In fact, "these risk types are interdependent" [7]. Others are even connected to the relationship with the supplier: "the more risk-reverse the retailer is, the lower are the profits earned by the retailer and, of course, the more are the profits of the supplier", and vice versa. [8]. Basically, the relationship management between two parties is always risky and hard to control, given that "long-term relationships do not imply trust. Not surprisingly, age of the relationship was observed to be uncorrelated with relationship quality".

[9]

## Time-to-Market and Lead Time Variation

Time to Market (TTM) is defined as the period-of-time between the conceive of a product and its availability on the consumption market, serving as an analyzer of the way products are developed within an external competition context. For the SRP specifically, it is always on the retailer's interest to lessen the TTM as to faster the process and monetize its investment. For SRP time management, SONAE created a TTM document to list the deadlines to each step of the process, from its beginning to its very in-store exposition. The deadlines stipulated are always uncertain as they are subject to several external variabilities, such as the inconstant levels of in-house stocks from the suppliers or the warehouse. The Lead Time Variation (LTV) measures the required time for the supplier to deliver the goods once an order is placed (which is the period until an ordering opportunity arises again). In fact, when the initial production runs delayed, all the operational cycle on the warehouse is compromised: "like any other uncertainty, LTV is expected to deteriorate supply chain performance" [10]. As a matter of fact, "the total inventory cost and the sum of stock levels across the stages of the supply chain drastically increase as LTV increases".

**Implementation Process: From the Supplier First Approach to the Shelf**

There are two possible cases for a SRP implementation: If the article already exists, the need for a SRP is detected during its life cycle. If the article is new, the SRP comes already included in its launching costs, formalized in the General Supplier Contract (GSC). It is crucial to state that, in a contest of potential new suppliers (Tender), priority will be given to those who guarantee an excellent quality SRP. The explanations below describe a SRP implementation process of an existing article, which can last for more than five months.

**First Supplier Approach:** This phase starts whenever a need for SRP is identified. This decision is only validated by the Sales Dept. if it represents an advantageous investment of justifiable sales. The expected time for this phase is one week.

**Negotiation:** In this phase, the retailer clarifies the supplier on the SRP's requirements by sharing all logistic specifications of the process, such as the type desired, the need for optimization and the logistics obligations. After this, a reasonable proposal can be requested. The retailer will then ask for a physical sample with product included for internal validation. The expected time for this phase is one week

**Sample Reception and Validation:** At this stage, the retailer must receive the physical sample as well as the cost structure, in case the supplier does not fully support them. The sample must be validated by the Space, Sales and Logistics' Dept. The expected time for this phase is one month. [Exhibit 4]

**Cost Analysis & Final Approval:** To obtain the final approval, the Sales Dept. must validate the cost proposal, and, if approved, request the die cuts (SRP PDF plan) and the number of printing colors for image development. The expected time for this phase is one month. [Exhibit 5]

**Design Application:** In this phase, the Packaging Dept. receives the die cuts from the Sales Dept. and applies them the technical drawing according to the specifications given internally. When finished, a final artwork will be sent to the supplier for SRP production. The expected time for this phase is one month. [Exhibit 6]

**Shelf Implementation:** This phase comprises the time between the final artwork is sent to the supplier and the placing of the final SRP on the shelf. Before the supplier starts printing the final cases, the Sales dept. must drain



in-house stocks. If the process involves changes of Storepack (from the original American display), the Stocks Dept. must reset all stock from the three warehouses and initiate orders with the new logistic. Finally, the supplier must send a final sample of first production to give sensibility of the new SRP format.

If the article is an innovation, the stage of design application is not applied, as it is already done by the supplier. The first supplier approach, explanation, proposal and cost analysis are contemplated within the supplier initial contract. However, the sample reception and validation is done in an equivalent way as an existing product.

### **The Typology of the “5 Easy’s”**

The following typology represents the five functional requirements a SRP must contemplate: [Exhibit 7]

1F: “Easy to Identify”: An easily identifiable SRP allows a faster recognition. It is required to have a minimum of two bar codes and a visible expiry date. The packaging must clearly communicate the product content and facilitate the operators in the warehouse tracking, thus maximizing the lines of sight and recognition.

2F: “Easy to Open”: A SRP must have easily identifiable opening points (from the side to the front) and one or two opening steps with no need for cutting instruments.

3F: “Easy to Replace”: An easily replicable SRP facilitates the removal of its packaging from the expedition configuration without curving or breaking the sales units. An equilibrium must exist between weight and design.

4F: “Easy to Buy”: An easily buying SRP permits a fast acquisition and interaction with a specific product and its branding. The client shall also re-put the product into the same case if he does not want to buy it.

5F: “Easy to Recycle”: The SRP should use recyclable and reusable materials with respective logos, making it easily stacked and removed from the corridors.

### **Planogram Integration**

Considering that space allocation is a critical factor for Sonae’s success, the LD regularly draws planograms for the different SP, based on rotation, profitability and communicational marketing. [Exhibit 8] These planograms are graphical representations of products’ positioning in the shelves, always adjusting the SRP to the product and

never the opposite. This integration is pursued to allocate PLB alongside SLB, whenever the products are similar. By assigning a Stock Keeping Unit (SKU) to a specific spot, the respective SRP comes included, defining of the number of fronts, height, and depth. The planogram elaboration activity (PLNG) is done through a dashboard that evaluates the rate of SRPs on the SP's and the execution of the FIFO method (First in First Out, which primary places the products with less shelf), using a chronogram. [Exhibit 9].

The active product range shall be displayed on shelves under the planogram guidelines, though is not always possible to expose it fully in smaller SPs, such as Bom-dia's. This solution requires a replacement ratio method (of one article to another), thus not changing the size of the exposed range. This change is made either by discontinuity of an article for the entrance of another, or by innovation (withdrawing visibility / space to the replaced ones). For PLB, the innovation is usually governed by the attempt of replica and/or referral of SLB with a lower RSP. It is therefore crucial to have an intensive range review so that the SRP does not collide with the linear. Nevertheless, promotional actions may interfere with the planogram, since the LD not always follows DE' requirements at risk. [Exhibit 10].

### **The Logistic Charts Notebook**

To ensure traceability in the supply chain, SONAE has decided to implement a global codification system named GS1-128 labelling. This requirement enables the automatic tracking and reliability of all merchandise information during its shipment, integrating a wide range of data, such as "expiry dates, production batches, weights, amongst others". [gs1] These labels maximize accuracy and bring a universal language between collaborators, through the exclusive use of its own identifiers (AIs) and specific dimensions. [Exhibit 11 and 12]. It reduces costs, minimizes order cycles, and avoids the successive relabelling. Regarding pallets, the homogeneous ones are comprised of identical products with equivalent Global Trade Unit Number (GTIN), expiry date and batch. [Exhibit 13] The heterogeneous' ones are composed of distinct products and consequently contain

only a label with the Serial Shipping Container Code (SSCC) encoded in GS1-128 barcode. [Exhibit 14]. Concerning the SRP, the label can be placed on the transport case [Exhibit 15]. The non-compliance with the GS1 application may cause logistic inefficiencies and associated costs.

#### **a) Requirements and Logistic Dimensions**

The SRP's volume shall be used in such a way as to ensure the protection of the product in storage. The transportation must be careful as to prevent cracking or crushing due to the movement of other overlapping cases.

The SRP shall be easy to remove and unobstructed [Exhibit 16a], there must exist an automatic production line as to produce a stable bonding of glue points, create a resistance without traces, avoid rips and keep the interior white for a better appearance. [Exhibit 16b and 16c]. Regarding the design, it should be coherence between the case image and the unit packaging. As the SRP type is standardized, it will create an embracing claim, contradicting dispersed or white printings. The SRP must have one of three options for case sealing: a micro perforation of easy extraction, a cap for easy removal, or a plastic wrap (shrink) for total protection of sales units. When the units come in packs, the SRP does not need to reinforce the safety of the product, being the pack itself a plastic protection. The investment on these SRPs shall give priority to quality rather than aesthetic, never neglecting the last one. The base outer surface must not have perforations or openings neither suffer deflection and the corners of the board should be made straight (90°) for optimization of space. [Exhibit 16d]. It should not have unfinished painting and it must prevent glue tape from being extended to the front handling points [Exhibit 16e]. The pallet stacking should be done in a uniform manner to avoid unnecessary loading and the product visibility must be perfect [Exhibit 16f and 16g]

If possible, SRPs should have a cover to protect the sales units, rather than perforations, plastic wrapping, shrink, adhesive paper or vita-film [Exhibit 16h]. Covers should be fluted and unprinted since they will be discarded.

The SRP must have a maximum weight of ten to thirteen kilos to avoid overcharge and potential handling hazard. Its height must not be more than twenty-five centimeters and it must approximately equal to one-third of the product's height to fit on the smaller stores. The length must not be greater than fourth-one centimeters, so as not to exceed the depth of the shelves, and its width should not be wider than two product fronts, to balance this number

between PLB and SLB [Exhibit 16i]: "The manufacturer will be responsible for delivering an outer case that meets the agreed functional requirements, while maintaining the to innovate." [11]

#### **b) System Registration**

Each time an implementation process is completed and the SRP arrives to the store to be replaced as such, there is a requirement for an update of information in SONAE's system (Retek), done by the respective category assistants. In this phase, the SRPs are registered according to their typology: The code for transport cases is "UDA 135", the one for pallets and semi-pallets is "UDA 158" and "UDA 159" respectively. For boxes, there is a need to create a different SKU to define a new purchase order. [Exhibit 17]. The symbiology used in the label expresses a SRP associated, indicating which products are to be replaced as such. [Exhibit 18]

#### **Brand Management and Marketing as an Objective**

The SRP implementation shall follow a suitable level of Design-to-Value (DTV) according to the possibility of process savings and additional value. In fact, the SRP shall contribute to improve consumer satisfaction and appreciation, reflecting it on increased sales and brand loyalty. For example, it is convenient for the customers to bring home the SRPs as a practical take-away-packaging. Since the carton will be thrown away later, this turns out to be a strategic customer satisfaction action. Additionally, the displays shall not be allocated in isolation as to evidence a uniform perspective of the private label, meaning that "the SRP that maintains brand identity facilitates product recognition by shop floor staff and consumers" [11] which must be kept throughout the different stores, so that consumers can recognise their products regardless of the shopping environment. This expression should be coherent with the brand image and should not limit the design, marketing, or merchandising. This strategy must create an authenticity branding, supported by promotional communication, new launches/innovations, product visibility and it must not send mixed messages to the public. As a matter of fact, "retailers have realized the importance of creating a retail image by developing high quality and unique own-brand products". [12]

### **Controlling the Implementation Rate**

Currently in the private label, there exist 2.608 food articles. At the end of April 2017, there were registered 1.074 PL articles with SRP, representing a percentage of 50.3% of successful implementations, distributed by the various business units [Exhibit 19]: The Salty unit contributes with 20%, the Sweet unit with 15%, Home cleaning with 7.2, Hygiene and Beauty with 3.8, the Drinks with 2.6%, and Milk Products with 1.7%, leaving 1060 articles to future development. According to the projections, in September 2017, the total goal for SRPS in PL will be reached. Meanwhile, there is a window of opportunity of 49.7% that excludes the non-workable items, such as the frozen products (by necessity of below zero climate), picot articles, several hard drinks, low rotation products, references to be discontinued and seasonal and temporary items (which represent an unworthy investment for a very short life-cycle). To control this implementation rate, it is done a monthly visit to one pilot SP (Continente de Telheiras) and to the warehouses to coordinate logistic tests of pallets and boxes with associated risks (for example a bleach palette or a napkin box).

For a successful analysis of the SRP implementation, it is pursued a weekly control of the KPIs extracted from several pilot SP, such as the rate by category of SLB and PLB [Exhibit 20 and 21]; the evolution over time [Exhibit 22] and its performance in the various SP [Exhibit 23]. Although remaining underdeveloped, these values are a critical factor for monitoring the results achieved. There are also other subjective indicators in construction, such as the consumer satisfaction analysis (using surveys to collect feedback on the current SRPs) and the internal forums of operational critiques (which evaluate the satisfaction of the collaborators in the replacement of SRPs and/or their displeasure with specific cases on progress).

### **Critical Analysis I: Operational and Field Perspective: [Exhibit 24]**

*According to the Sr. Fernando Moreira*, the major operational advantages of a SRP are reflected in a better in-store exposure, productivity, work safety, and product identification. These results have been driving international players to do the same, making it vital to follow the direction of the market.

Despite the existence of imperfect situations, he recognizes that this initiative is “a worthwhile investment with a good implementation rate”, also gaining from the added value of an efficient communication between the store and the Sales department. Regarding the case itself, the approach with the suppliers must move away from the basic display, since it ends up removing visibility of the product rather than increasing its identity. Moreover, the delays are frequent (given the supplier’s limitations of capacity); there is a need for occasional investment on personalization, when to adapt the boxes and pallets that do not fit in smaller stores and; the SRP is not considered for specialized categories like perfumery and hard drinks (whose typology unable the SRP). Concerning the consumers, it does not yet exist a perfect knowledge about the function of a SRP. However, they are noticing structural changes and start wondering about differences in the sales unit. (Moreira, 2017)

### **Critical Analysis II: Procurement & Sales Perspective [Exhibit 25]**

*According to Miss Constança Fernandes*, today retailers are becoming increasingly focused on “promotions, profitability and productivity”. For that reason, these big retailers are starting to work with SRP, driven by the inherent advantages of an easy replacement, time effectiveness and minimization of expenses.

However, the operation will always entail several time-consuming phases, such as the delays generated by the suppliers (caused by the duration of the negotiation terms and logistics conditions) and the internal processes (caused by the linger relation between design, stocks and procurement). To support this issue, the Sales area is developing a SRP manual and a video to clarify the guidelines of the in-store implementation, providing an interactive rule-sharing between operators and the Sales area, explaining the details about all the inherent benefits of the SRP. To improve all performance, Miss Constança suggests a stronger connection with the stocks and logistics’ department as “they are incomparable aware of how warehouses function and whose capabilities have the major potential of demonstrating the way to control all the supply chain”. Regarding the consumers, they come to realize the adoption of SRPs in all major retailers, thus recognizing its potential in the replacement process.(Fernandes,2017)

**Critical Analysis III: Supplier Perspective [Exhibit 26]**

According to Sr. Paulo Santos, the operational advantages of a SRP process lie on the ease of product placement for consumer sales and the possibility of increased cost-efficiency. With its own supplier perspective, he believes his gains from the considerable investment are worth the risk, since the cost incurred will be overtaken by the expected increasing in the consumption. Being a supplier from the competition, Paulo considers that SRPs have had a great adoption through the years, on all big retailers. Hence, he finds important to take on that league and strategically follow the direction of the market.

In terms of internal difficulties, at first, Goma-Camps had several production troubles. However, by the force of improvement, the SRP “became a process like any another”. In this way, Paulo concludes that it is crucial to invest time and dedication on the machinery development and production management. Considering the consumer perspective, he believes that the client will only value the SRP if it eases the access of the desired articles. If these cases jeopardize the purchase action more than they ease them, the SRP will have its value reduced. (Santos, 2017)

**Benchmarking and International References**

Given the complexity of the SRP process, the action of competitive benchmarking is a key success factor, as it improves SONAE’s dynamics to explore, learn, and keep ahead of its competition, by comparing quality, time and costs. The company frequently studies the typology of its’ Portuguese’s competitor’s, such as Jerónimo Martins and LIDL, by doing a comparison of a wide range of PL SRP with their own. [Exhibit 27]. In case SONAE has a common supplier with the competition, it may require the same typology of case, if it is a superior one. On the other hand, by having a vast number of SRPs implemented is not a guarantee of competitive success, if SONAE keeps staying above the market. By benchmarking, it gets the opportunity to filter the best practices that are not easily detectable through commonly used management techniques. The bench marker by reference measures is more challenging, given the lack of quantitative information it has from its competition (like cost per unit of measure, productivity per unit of measure, cycle time per unit of measure or defects per unit of measure).

On an international perspective, SONAE's benchmarking is not typically performed. Although, it is crucial to know in which direction the global retailing is going to. According to Smithers Pira's review on the Future of Retail, the demand for RRP started in 2005 in UK, and quickly spread to the globe, with its "three-quarters originated in the food sector" [17]. The corrugated boarded SRP appeared to be the global predominant choice, "making up more than half the market", followed by the decline-wrapped trays "constituting 17% of demand" and by the modified cases "remaining 5%" [14]. Moreover, Smithers' states that the biggest driver for RRP high demand is the burgeoning growth of some underdeveloped and on-going retailing industries (such as India, Brazil, Africa and South America). Since these economies have the "the stimulus to maintain growth in demand for RRP, they will try to "prevent any marked decline". [13]

### **Challenges, Projections and Limitations**

The SRP project has several challenges and limitations. However, it is possible to infer the right way to go at the present: The real challenge is to find "an alternative to providing superior value which improves the performance of the company as well as the benefits for the customers in the long run" [14].

Business analysts can pre-see significant variations for the Portuguese food retail, such as the increase in the business rates, labor costs, raw materials (such as alcoholic beverages, sugar drinks (e.g. cider and ice tea), nitrile (responsible for disposable gloves), latex (in some hygiene and beauty articles) and many others. These factors may increase the amount charged for intermediate or final supply, contributing to a significant impact on the annual profit of a massive retailer like SONAE. It is also strategic to look at the growing competition as a factor of future instability and jeopardize: For 2017, the Spanish retailer "Mercadona" is expected to enter the Portuguese territory, promising to offer an extensive range of articles with no discounts but with low fixed prices.

To keep ahead of the competition, SONAE has been developing small technical innovations, such as the "Shop View" (a camera-buggy that captures images of the store-shelves and compares them with the planograms); the continent card (that manages all personal data and increases the quality of information stored in the database); the creation of Bom-dia's, (small supermarkets with a strong value proposition to smaller villages), and many others.



In terms of potential adaptations, it would be an advantage for SONAE to consider the fusion between the physical and the digital world: Using for instance “the beacons” (little store devices that reveal the route traveled by each consumer via Bluetooth and only after customer-authorization). This device intends to trace the routine of the client and to understand the reasons behind its trace. With this information, it is possible to apply a wide range of actions that best fit the layout of a store to a common preference.

### **Facing the Digitalization of Things**

Nowadays, the retailing industry is experiencing an evolutionary transformation, facing e-commerce and technology as a redefinition of the way of “shopping”. Currently, people are seeking for convenience, which is increasingly becoming more and more technological. With continued raises in mobile adoption and broadband penetration, “the distance between the physical and digital worlds are blurring” [15] and the online grocery sales are boosting. According to a Nielson Global Inquire, “one-quarter of international online respondents said that they order grocery products online, and more than half are willing to do so in the future”. [15] Although Portugal has achieved considerable progresses on e-commerce in 2016, the penetration of digital channels and online advertising remained low when compared to other European countries, exposing the potential ahead of Portuguese big players. [16] In fact, “international companies are looking at hologram technology patents for future use on smartphones and tablets, generating an image of a 3D page for shopping”. [17]

As shoppers are growing accustomed to an increasing E-world, they will consequently higher their expectations to the digital grocery, not because they feel imposed to do it, but because they instinctively do it through their everyday interaction. In this sense, the escape for today retailers would have to go through the adaptation of the current market trends as to understand people’s needs. Because retailers are “forced to reinvent themselves” [17], the only survivors will be the ones “at the intersection of the physical and virtual worlds, leveraging technology to satisfy shoppers”. [15] Moreover, SONAE has been upgrading its website “Continente Online” providing attractive campaigns to keep the client satisfied. For the Portuguese’s e-retail sector, “Modelo Continente Hipermercados” was the leading player in internet retailing in Portugal with a 10% value share in 2016”.

**Abbreviations**

SRP – Shelf Ready Packaging

RRP – Retail Ready Packaging

RSP – Retail Selling price

PLB – Private Label Brands

PL – Private Label

SLB – Supplier Labels Brands

SP – Sales Point

LTV - Lead Time Variation

TTM – Time-to-Market

SKU -Stock Keeping Unit

GSC – General Supplier Contract

DTV – Design-To-value

LD – Layout Direction

KPI – Key Performance Indicators

GTUN - Global Trade Unit Number

SSCC - Serial Shipping Container Code

## Teaching Note

### *“Shelf Ready Packaging in Private Label Brands”*

#### **1. Academic Objectives**

This case intends to demonstrate how an operational process can have such an huge contribute on the supply chain cycle of a massive food retailer like SONAE by impacting its final annual savings. It is intended to explain the major procedures of a company’s sales point implementation by looking at operations as one of the most important basis of a wholesaler business. In fact, the following case suggests that areas like Operations and Marketing can come across, by having one sole purpose of communicating a higher involvement, commitment, and convenience.

The operations generally require a management of both strategic and daily production of goods, making the Shelf Ready Packaging on Private Label Brands a multi-coordinated process, which can offer several added values to the retail business: One being the improvement of product identification by the consumer and other being the facilitated replacement process by the operational technician. In the manufacturing operation, there are several decisions made under the conditions of product design, quality restrictions, supplier capacity, inventory and stock planning and timeframes. The pedagogical meaning is to detail the main procedures that sometimes go hidden within a big company that end up providing a massive support for its survival.

#### **2. Synopsis**

This case will characterize one of the major operational processes of the massive Portuguese food retailers, by the name of Shelf Ready Packaging. This procedure will be based on Private Label Brands and the company of choice is SONAE. In a brief introduction, insights of the historical retailing will be given, from both International and

Portuguese background, followed by the relevant status of current private labels, as well as its growing patterns. The shelf ready packaging process will be introduced, along with its strategic ramifications, such as factors of investment, risks, time-to-market, typology, logistic requirements, key performance indicators, performance rates, planogram integration and others. Additionally, three distinct perspectives will be expressed, as a way of connecting opposite interests and bringing an added value to the current analysis. Also, branding and marketing will be presented as a triggering factor to enhance involvement and convenience to the operation. And finally, several limitations and challenges will be stated, to help prospering a concrete view of the future of Portuguese retailing food industry.

### **3. Target Audience**

The target audience of this case study is general and ambiguous to different fields of study. However, the more priority ones are Management Students, mainly on courses related to Operational Management, Operational Marketing and Branding Communication. This case emphasizes all the logistical perception of the Great food consumption and serves as a mirror for a lot of several types of operational processes in other industries.

### **4. Case Inputs**

The case study was developed upon the practice and implementation of the described operational processes within the scope of a professional internship at SONAEmc. The author joined the area of Procurement and Sourcing of the Private Label Brand Department, which is governed by the Brand Development Department and the Commercial Food Division of the SONAE group.

## 5. Roadmap for Class Discussion

### Part One - Factual Questions

*Q1-As any other operational process, the Shelf Ready Packaging has its own potential failures, which can jeopardize the initial investment and outbalance the gains from its successful implementation.*

#### **Characterize the most plausible hindrances of a SRP Implementation**

(Answer Proposal)

The SRP is not a standalone best practice and if not properly implemented, it may impact numerous elements of the supply chain (i.e., warehouse shrink, shelf allocation, stocks availability, logistics), increasing costs and reducing efficiencies. The investment will only bring economic compensation if it is implemented as initially purposed. Problems arising from non-fulfilling supplier service levels enforce the delay associated with design validation and inventory control, being this last step is complex: When there are changes of storepack associated with transacting from an old American case to a SRP, it is necessary to start buying the merchandise with a new logistics. This change requires the internal force of the “run-out-situation” of old logistics in all warehouses, and, only afterwards that, it becomes possible to have the SRP supplied. This entire process takes a long time.

Moreover, the non-use of the SRP in store may unbalance the sales investment previously made. The fragility of the carton or the smaller height of a tray towards the article can unbalance the stability of the pallet and promote tumbles, putting at risk the safety of people instead of maximizing benefits.

*Q2: Because money and time are scarce resources, all investment decisions must be made under prudent choice of factors.*

**Define the factors of choice to consider when deciding to invest**

(Answer Proposal)

Considering that the company's financial resources are limited, it is important for the Sales department to analyze which product ranges are in deep need of a SRP adaptation. The articles will be targeted if they possess several aspects, such as, a significant level of rotation (quick sellers); an innovative profile (already contemplating the SRP cost in the contract price); a quick adjustment to SRP, and finally, a history of inconvenience to the replacement (either because of constant breaks or other in-store difficulties). These standards are done to make the process structurally safe and practical for the store. For example, an SRP for an ethyl alcohol should be properly sealed, although some flexibility is required in order to keep it safe from the imminent risk of a product breakage.

*Q3- The area of digitalization is coming to stay. The only survivors will be the ones who can construct a bridge between the digital and physical worlds, without disinvesting in any of them.*

**How can digitalization be a part of retailing innovation?**

(Answer Proposal)

Even though digitalization may bring negative consequences to the food cycle, it is also a part of it: The Massive food retail is increasingly upgrading their own investing websites to reach the youngest generations, who will represent the consumers in the near future. For instance, the GS1-128 codification of SONAE's labelling is a clear example of the need of digitalization, which has been part of significant changes in its supply channels, product packages, and store information platforms. Even the most operational systems

need a higher advantaged technology to function and innovate. Otherwise they will be overtaken by the society. Despite the great advantages of online business, in-store-retail will always be familiar and appreciated, as it is indispensable for some type of shopping acquisitions.

### ***Part Two - Challenge and Open Questions***

*Q1: The Key Performance Indicators (KPI's) are essential to analyze the success of all company's projects, programs, and other initiatives it engages.*

**Considering that the current SONAE's KPI's for the Shelf Ready Packaging remain underdeveloped, which extra indicators could be implemented to keep the process under control?**

(Answer Proposal)

The potential of available space is the spot to grow and the potential of unavailable layout is the spot to innovate. Two potential KPI's to purchase a better in-store availability for SRP would be the following:

An indicator of Layout Availability: With this indicator, the space department would determine the current slot vacancies for SRP implementation. On one hand, if the space planogram availability was small, the window of opportunity for SRP would be restricted but its value for implementation rate would be good. On the other hand, if the space planogram availability was big, the window of opportunity would be large but the implementation rate would be poor. Although this indicator enables a visual and constructive analysis, it may raise divergent interpretations.

An indicator of “Run-out of Stocks Situation” Caused by SRP: With this indicator, it is possible to control the impact of the SRP on the availability of products in the linear of the Sales Point: Whenever a run-out of stock situation occurs, collaborators will measure

the amount of the percentage due to bad SRP implementations. That information would be sent to the Sales Department, who would negotiate with the respective supplier for better terms of conditions and appropriate transportation cases. A percentile decrease of this indicator would represent a positive impact on the process.

*Q2: Currently, SONAE’s most well know private Label brand is “Continente” and its first priced brand is “É Continente”. However, the group detains several exclusive brands with a total different packaging and labelling, but still living under the umbrella of private labels*

#### **Example of a “Contemporal” Wine**



#### **Example of a “My label” Item**



#### **Detail the main reason why SONAE invest so much in its exclusive private label brands**

(Answer Proposal)

One example of a current applied strategy in SONAE is the one practiced in SONAE’s exclusive brands, for example with My Label (for Beauty care) and Contemporal (for Wines). In the case of Contemporal, consumers will be more likely to buy a wine with a “Contemporal” label (some might not know it is a Private Label Brand) rather than a Continente’s wine for a special occasion, like a Christmas dinner [Exhibit 1]. As for my label, a lot of women are quality sensitive to cosmetic products and they are not willing to forgo the safety of the product to acquire a “Continente” PLB. [Exhibit 2] Hence, they will probably buy “My Label” as it has an appealing packaging that do not look like a PLB.



*Q3: “The Stocks are the area that make the business really happen” (Constança Fernandes. 2016)*



**Describe the necessary stock coordination to guarantee the SRP in-store arrival.**

(Answer Proposal)

- I.** When the final artwork is finalized between the Supplier and the Packaging Department, it is necessary to ensure the "OK" for production from the Commercial Manager from the respective business unit.
- II.** The assistant must ask the supplier two different things: the exact date of first production with the new SRP and the information on the old cases stocks of finished product still existing on his fabric.
- III.** The assistance must make sure the stock manager drains both the warehouse and supplier stock before purchasing a buying order with the new SRP. (The stock must be poured first - "FIFO Method").
- IV.** The purchasing order for the supplier must be such that fill the truck in its entirety, just as previously done with the old cases. The main objective of this procedure is to economize the transportation to the warehouse.
- V.** The Warehouse operational team must confirm the arrival of the new cases and react to the stock department, in case of any abnormality.
- VI.** The Warehouse Stock is then sent to the different stores, according on the range defined for the respective merchandise.

*Q4: The main purpose of the Shelf Ready Packaging is to be efficient and to save costs. And it will be implemented until another better process comes along. However, operational innovation is crucial, not only to improve current procedures but to create new ones.*

**Please nominate one different idea to innovate the process supply, apart from the SRP.**

(Answer Proposal)

One potential idea to innovate the supply process is the implementation of the emerging bulk retail. This “outlet” business model intends to commercialize the products in-store without any packaging or sales unit protection. The consumer is supposed to bring their own plastic bag or shopping utensil to acquire what he/she desires. This type of retail can enjoy higher margins by lowering the retail-selling-prices, giving the decreases of expenses the retailer must pay for pre-packed expenses. Moreover, the Bulk merchandising is a solution for many category products such as confectionery, nuts & seeds, cereals & muesli, pet food, coffee & tea and rice, pasta & grains. Since more than ten years, there has been a strong increase in this innovative solution across impacting store formats and local markets, where consumer can choose the exact amount they wish to purchase. The target audience is not just the price sensitive consumers but also the environmental-friendly ones who are already familiar with this type of commerce. Also, Bulk bins are an excellent way of detecting preferences and adapting them locally.

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